



**CITY OF SCOTTSDALE
TOURISM DEVELOPMENT COMMISSION
WORK STUDY SESSION**

Tuesday, December 16, 2014

**SkySong, Imagination Conference Room
1475 N. Scottsdale Road
Scottsdale, Arizona 85257
APPROVED MINUTES**

PRESENT: David Scholefield, Chairperson
Ace Bailey
Carl Grupp
Camille Hill (left at 10:11 a.m.)
Ren Hirose
Robert McCreary (left at 12:00 p.m.)

ABSENT: Tom Enders, Vice-Chairperson

STAFF: Steve Geiogamah
Holli Shannon
Paul Katsenes
Jeff Nichols
Lee Guillory
Rose Rimsnider
Fritz Behring
Bill Hylan
Dan Worth

GUESTS: Virginia Korte, Council Member
Kathy Littlefield, Council Member Elect
Rachel Sacco, SCVB
Rachel Pearson, SCVB
Valeri LeBlanc, PLACES Consulting

1. Call to Order

Chairperson Scholefield called the work study session of the Scottsdale Tourism Development Commission to order at 9:29 a.m.

2. Roll Call

Chairperson Scholefield noted the presence of a quorum.

3. Introduction, Agenda Overview and Objectives

Each attendee took a moment to introduce themselves. Mr. Geiogamah reviewed the meeting agenda and objectives.

4. FY2015/16 Bed Tax Budget – Preliminary Allocations

Finance Director Ms. Lee Guillory reviewed the most recent changes to the proforma, which now reflects the FY2013/14 final numbers. Two bond issues related to Museum of the West and the Tournament Players Club have been priced and the FY2014/15 annual debt service numbers have been updated accordingly. For the MoW about \$434,000 is needed for a partial year of debt service; in future years it will become \$900,000. Similarly, the partial year debt service for the TPC is \$518,000, and the future annual commitment is \$900,000.

Ms. Guillory reviewed two items that have yet to go before City Council for approval. The Tourism Commission's recommendation to allocate part of the multi-year commitment to the Civic Center Mall debt service payments appears on a new line. In outgoing years, the debt service commitment will be \$600,000. Another \$600,000 in future debt service has been recommended for commitment by the TDC towards the Desert Discovery Center. The Civic Center will be presented to City Council in January, but the DDC proposal is still in preliminary stages.

Ms. Guillory noted that a request was made to apply carryover towards the TPC and MoW to keep debt service payments for those projects at or below \$900,000 per year. The MoW is using \$400,000 of carryover towards construction, while the TPC is using \$315,000 of the carryover. The remainder of the carryover is available for future uses. The matching contributions line item for the MoW was \$400,000 and now is \$454,000. The \$300,000 that the TDC recommended be used towards the design of the Civic Center Mall improvements has yet to be approved by City Council.

Ms. Guillory stated that the estimated revenues of \$16,491,000 in bed taxes that appear on the proforma for FY2015/16, is being revised. The Princess revenues stay at \$1.6 million. According to Policy 21A, 50% of the bed tax revenues have to be spent in marketing. The one-time commitment of \$500,000 can be used for either capital expenditures, event retention or administration expenses, but cannot be moved to the General Fund. Event retention and development has the maximum allocation of \$1.2 million. Administration has been allocated \$500,000, but has typically not used its full amount. Funds within the carryover can be used for any purpose within tourism development except for multi-year capital project commitments, and cannot be returned to the General Fund.

Ms. Guillory noted that the multi-year commitment under FY2014/15 has over \$3 million in uncommitted funds that will likely fall into the carryover, since there are no projects ready to move forward. This will leave the carryover with over \$7 million by the end of

FY2014/15. If Civic Center Mall or DDC debt is not issued next year, that carryover could grow to over \$9 million.

Commissioner Grupp inquired about bed tax revenue trends. Ms. Guillory explained that they are currently running higher than expected, but that only covers about four months of data in what are typically low revenue months. Commissioner Hirose asked whether the expected revenues account for Super Bowl week. Ms. Guillory clarified that the forecasts were made before the Super Bowl was awarded to Phoenix.

Chairperson Scholefield asked about the \$1.5 million to the General Fund. Ms. Guillory explained that it is intended as a way to help reimburse the City for expenses that are incurred when tourists visit Scottsdale. Chairperson Scholefield inquired whether the Tourism Advisory Task Force has anything on the horizon that would require additional funds. Mr. Geiogamah responded that the current budget is adequate to get the TATF through its first two years.

Mr. Geiogamah welcomed feedback on ways to improve the monthly data available through the Smith Travel Reports. Commissioner Hirose noted that STR offers a forecast. Chairperson Scholefield said several financial firms also offer forecasts that could help staff with City revenue projections.

5. Financial Policy 21A – Special Revenue Fund

City Treasurer Mr. Jeff Nichols stated that in 1993, Scottsdale collected approximately \$3.8 million in bed tax revenue, whereas in 2014, the City collected \$15.3 million. The Scottsdale Bed Tax began in 1987 at 2%. Revenue was initially split 50/50 between tourism marketing and the General Fund. In 1999, the tax was increased to 3%, while the split was changed to 67% for tourism destination marketing, and 33% to the General Fund. In 2005, City Council changed the split so that 80% went to tourism development, and 20% went to the General Fund. In 2010, the tax rate increased to 5%, and the split returned to 50/50. Out of the General Fund portion, 24% went straight into the fund, while 19% went into events and event development, 8% into administration/research, and 49% for capital projects. In 2011, event and event development dropped to 18%, while five 10% blocks were added, including four blocks for multi-year tourism projects, and a single block for one-time commitments.

Mr. Nichols said that in 2012, the General Fund splits were expressed in dollar amounts rather than percentages. He advised returning to a hybrid percentage based system. If revenues continue to grow, fixed dollar amounts are not really an issue, but if revenues fall, it would become harder to determine what to cut first under the current system. In a hybrid percentage based system, as revenues increase, new \$600,000 wedges can be established and allocated towards new projects. If revenues fall short, they can be covered by a rate stabilization fund.

Mr. Nichols noted that another issue facing the carryover is that when people start to see money building up in the account, they could begin to look for ways to appropriate it for purposes other than it was intended. He asked the TDC to consider establishing a minimum balance to use as a rate stabilization fund to cover years when bed tax collections decline.

Commissioner Hirose suggested a mixture of both. Destination marketing should have a minimum amount, even in periods of decline, because that is when it is needed the most. If marketing declines by a certain percentage, it could really hurt the tourism message. Ms. Sacco noted that marketing funds were protected during the 2001 recession, which helped speed the recovery. This was not the case after the 2008 recession.

Commissioner Hill said she would prefer to keep the system operating the same way until a downturn occurs. The TDC could restructure in response to a downturn when it becomes necessary. Mr. Nichols explained that the City will always have to pay the debt service. His concern is that as more projects come forward, the City could reach the point where revenues equal expenses, leaving very little carryover from year to year, and no way for the City to respond to a downturn without impacting the General Fund. He would prefer to see the TDC establish a rainy day plan in advance, as rating agencies react positively to such proactive policies regarding downturns. He suggested that a 10% rate stabilization reserve would give the TDC the ability to handle a downturn for a couple of years without having to change programs. If the TDC decides to establish such a fund, staff would also appreciate direction on when it could be dipped into and for what purposes.

Ms. Guillory recommended that the fund show up in the carryover balance section of the proforma as a minimum below which the fund could not drop. It would stay in the Tourism fund and only be used for tourism purposes. Chairperson Scholefield said the fund could just as easily be placed in expenses. Ms. Guillory agreed that it could be handled that way, but the General Fund, for comparative purposes, handles it as part of the carryover and designates it for emergency purposes only. In response to an inquiry from Chairperson Scholefield, Mr. Nichols clarified that if revenue decreases to the point where all capital commitments cannot be paid, staff would request that the TDC use a portion of the carryover to fund debt service.

Chairperson Scholefield asked whether the debt service payments for the TPC would fall under the same principles as the Princess lease funds. Mr. Nichols said he would have to research the agreement with the TPC. Ms. Guillory clarified that the proforma shows that \$900,000 is applied from the tourism fund towards the debt service. The \$173,000 that the TPC golf course fee pays towards the debt service does not appear on the proforma because TPC revenues and expenses are not part of the proforma. Chairperson Scholefield felt there should be some correlation between the two. If the money is in different places, it would be good to have it shown in a consolidated format.

Chairperson Scholefield noted that the Tourism Advisory Task Force has identified the need for an emergency communication plan and an emergency operation plan. The Commission agreed to hold off on a decision regarding a rainy day fund until feedback can be obtained from the TATF.

Ms. Sacco felt that an emergency fund to ensure the integrity of the marketing effort would be true to the intent of the voters. Commissioner Hirose concurred. Mr. Geiogamah said the Task Force is working to address that issue and is preparing a presentation to City Council accordingly.

6. Capital Project Management

Executive Director of Public Works Mr. Dan Worth provided an explanation for how the capital project program works in Scottsdale. It is a \$600 million, five-year program. The biggest part goes to acquiring land and building improvements for the Preserve, using dedicated, voter-approved funding sources. Water and wastewater is another sizeable part of the program, and is paid for using water and wastewater fees, development fees, and agreements with other users such as golf courses. Transportation also uses dedicated funding sources, including a voter-approved sales tax, and Maricopa Association of Governments funding county-wide sales tax. The CIP budget just reflects the actual project costs, not the debt service behind it.

Mr. Worth said Scottsdale takes 25% of the revenue that comes from construction sales tax and puts it in the capital program. Known capital needs exceed the money available in the CIP, so the City works to identify the highest priorities and finds other revenue sources to apply when applicable. New funding requests are budgeted over several years. The first year might only pay for land acquisition and design, while the second year can see a big increase in construction costs. Transportation projects are different in that they are frequently tied to the availability of funds from outside sources.

Mr. Worth said a portion of the CIP is dedicated to taking care of already existing infrastructure and facilities. The rest of the money is used to build new projects drawn from a ranked list of proposed projects. Construction projects and information technology projects both go through their own review processes. Projects are analyzed according to how well they support Council's goals, how much they cost to operate, and other criteria.

Mr. Worth said the CIP General Fund will run out of money in year four unless projects are streamlined and/or additional money comes in from outside partners. The City is obligated to pursue federal and county grants, and this matching grant money helps stretch the City's sales tax revenue. Despite this, the City still has a significant amount of unmet needs. City Council will soon decide whether to approve another bond election and how it would be structured.

Mr. Worth summarized the process of deciding which projects to fund. He noted that projects all go through the same steps, but not always in the same order. Departments are first asked to review their needs and adjust them accordingly. Steps are taken to ensure that projects are being costed properly, and this includes input from boards and commissions. Project construction and design cost estimates are reviewed by the Budget Office to ensure that they can actually be built for the projected amounts. Construction and technology review teams analyze the entire list of projects and make their attempt at ranking the projects. The CIP Advisory Group is a higher level management group that prepares a list of the top projects that will be presented to City Council in February. Various Council meetings are agendaized for public review, tentative adoption, and final budget adoption.

Mr. Worth reviewed tourism projects currently in the CIP. These include the Marshall Way entry feature; the Scottsdale Museum of the West; the public art project for WestWorld, the Tony Nelssen Equestrian Center; and the TPC clubhouse and stadium

renovation. Most of the funding put towards the various studies regarding the DDC have not come out of the bed tax, but one study was funded with tourism money. While the DDC study appears in the FY2014/15 budget, it has mostly been paid off already. However, until it is officially finished and the contracts paid off, it has to be rebudgeted according to municipal budgeting practices.

Chairperson Scholefield asked about the steps taken to ensure that a bed tax funded project meets the eligibility requirements. Mr. Worth explained that when a project requests bed tax funding, Tourism is notified first. If they determine that the project qualifies, it is brought to the attention of the TDC. City Council has the prerogative to consider projects on short notice.

Chairperson Scholefield noted that the Marshall Way project just showed up on the proforma without explanation after it had been approved by City Council. The TDC never had a chance to consider it, even though City Council expects communication from the Commission. He said staff has the responsibility of providing information on City Council approved bed tax expenditures, along with the processes and procedures that were used to approve them. Mr. Worth agreed. Mr. Geiogamah said Tourism staff is monitoring City processes to identify projects that should come before the TDC.

Commissioner Hirose inquired about cases where expenditures fall below what was budgeted. Mr. Worth explained that when projects close under budget, the money goes back to whatever funding source it came from.

7. Tourism-Related Capital Projects Evaluation Process

Mr. Geiogamah proposed a tool for the TDC to use in evaluating tourism-related capital projects. Projects would be weighted according to their ability to attract new markets, particularly during non-peak season, and whether they enhance Scottsdale's southwest image, among other criteria. The criteria could be changed depending on changes in the market. He requested the Commission's feedback prior to possible adoption at a future meeting. This evaluation by the TDC would fit into the capital project management process discussed in the previous agenda item.

Commissioner Grupp said he likes the idea, since it would help spur dialogue. , Executive Director of Community and Economic Development Mr. Paul Katsenes agreed, and added that it would also establish consistency from project to project. Every other City division has a process for evaluating projects. The Commission agreed to consider the tool at a future meeting.

8. Tourism Program Objectives and Tactics

Mr. Geiogamah asked the Commission to identify short-term program priorities and tactics related to event development, tourism research, and destination marketing. He noted that the last economic impact study at WestWorld was conducted in 2007. There are also opportunities to use bed tax money to support groups that are coming to a Scottsdale venue or hotel property.

Mr. Geiogamah reviewed the various event funding programs. The Tiered Event Funding Program has a budget of \$200,000, about \$100,000 has already been distributed. The Community Event Funding Program is budgeted at \$180,000, about \$50,000 remains unspent. The New Event Development Funding Program can use whatever funds remain from the \$1.2 million allocated towards event development, as well as any available one-time commitments. The Event Venue Fee Program was budgeted at \$20,000 to support participant driven events that take place in a City-owned venue. That budget has been expended for the year.

Mr. Geiogamah said when staff evaluates events from a Gift Clause perspective, room nights are not considered. Instead, value is based on the amount spent on marketing. The research budget used to have a \$33,000 allocation, but it was increased to \$70,000 based on the activities of the past year.

Commissioner Grupp inquired whether the Event Venue Fee Program covers the entire cost of renting a facility. Mr. Geiogamah responded that it covers a percentage of the rental fee, which can vary depending on the length of stay. The \$5,000 valuation is based on the return on investment received by the City. Chairperson Scholefield asked whether the Commission would have to wait until next year to provide more event venue funding, since the current budget item is spent. Mr. Geiogamah responded that any time staff sees value in an event coming to Scottsdale it would be brought before the TDC for their consideration, even if there are no funds left in the applicable budget item. Staff could approach Council with a request to increase the budget allocation, which would provide the flexibility to fund that event.

Chairperson Scholefield said the TDC should consider increasing the event venue fee allocation next year, since the criteria would remain the same. That the fund has been expended already demonstrates its value. Commissioner Grupp asked whether Scottsdale has lost out on events because of the lack of money in the fund. Mr. Geiogamah responded that there have been no requests for the program since the funding ran out.

Ms. Sacco said New Event Development has proactive potential, because the decisions on how the money is spent help shape Scottsdale's tourist product as well as fill room nights. Funding could be used to bring in an event producer who has created successful events in other places. Mr. Geiogamah reported that staff has begun work on an introductory welcome packet, and familiarity tours aimed at event producers. Chairperson Scholefield noted that Valeri LeBlanc proposed setting aside \$300,000 for group market development. He inquired whether indirect benefits, such as prestige, can be considered when valuating an event. Mr. Katsenes responded that indirect benefits cannot be easily quantified in dollar amounts.

Chairperson Scholefield said some of the most important benefits that come from hosting an event might not be measured in room nights but in the exposure they provide to key target markets, such as golfers. He requested guidance on how the gift clause accommodates indirect benefits. Bill Hylen explained that the gift clause considers what is being purchased in a way that is bargained for under a contract. If there is market value associated with attracting an event to Scottsdale, then the City could argue that the money spent to get the event here is lower than the market value that is received in return. Mr. Geiogamah added that the challenge comes in quantifying the marketing

value. Mr. Katsenes said the analysis has to determine whether the City's investment matches up with the value as specified in the contract. The gift clause does not prevent the City from entering these types of agreements, but the calculations need to be done to ensure the City's investment is returned.

Chairperson Scholefield said Scottsdale Tourism has to find a path to help event producers so that they are not completely restricted by the gift clause requirements. Destinations compete for events because they realize that they provide long-term benefits to their communities. Can other criteria be applied that would not only help the City adhere to the gift clause, but also bring in events that would benefit the hospitality industry and the entire community? Mr. Geiogamah responded that staff is looking into that question, but noted that competing destinations do not all work under the same requirements.

Chairperson Scholefield proposed that the TDC give the SCVB a separate source of funding, above their 50% allotment, to attract events. Mr. Hylen explained that the City would still have to define what is being purchased and whether market value was being paid for it. Mr. Geiogamah added that City Council would also have to approve such an arrangement. Chairperson Scholefield suggested Scottsdale contact other cities to learn how they are valuing events with respect to a gift clause.

Mr. Hylen stated that the gift clause considers whether the City is bargaining for something that has a public purpose, and whether it is paying market value for it. The value has to be built into the actual contract. Any other benefit derived from that contract, regardless of how good it is, does not count.

Chairperson Scholefield said big events clearly have value, because other cities are paying to attract them. Scottsdale has to find a path that works for both the Tourism Department and the City Attorney's Office. The current situation is too nebulous. Better definition is required if the TDC is to formulate a coherent plan of action. Mr. Hylen said it could be argued that the TDC's role is to advise City Council on the best way to spend bed tax, and that ultimately the gift clause should be a concern of the City Council. Chairperson Scholefield said he appreciates that the City Attorney's Office might offer a different recommendation than the TDC does, but Council should at least be given the opportunity to consider each proposal and the differing viewpoints. Mr. Katsenes said staff would return with a response.

Commissioner Hirose noted that one of Scottsdale Tourism's goals is to help develop new events from scratch. Mr. Geiogamah responded that the TATF is putting together a scope of work for an event market feasibility and sponsorship study focused on a multi-week event in downtown. That study should be completed by the end of the fiscal year.

Chairperson Scholefield inquired whether a limit could be placed on the amount of carryover money that could be applied to projects that are receiving funds from other sources. The bed tax has already paid for its fair share of WestWorld and Museum of the West, and should not have to pay for any shortfalls if they arise in the future. Mr. Katsenes suggested that the Commissioners share their views on how to use the carryover with Council Members and the City Treasurer.

Commissioner Grupp requested a WestWorld report on the milestones they have reached, and their projections moving forward, before the TDC votes on paying for an WestWorld economic impact study. Mr. Katsenes said staff has a report for the TDC to look at, but a compilation of the marketing, business, and the bookings could be very helpful. Mr. Geiogamah noted that event producers have expressed an interest in sharing the cost of a study. The data will be useful for planning policy and strategies. Chairperson Scholefield responded that the TDC is not opposed to more research, but it has to be specifically defined and of determinant value.

9. Summary – Next Steps

Chairperson Scholefield summarized key points of the discussion: the importance of task organization, planning for a rainy day, the details of the CIP process, and the commitment to finding a path to success in attracting big events within the next 90 to 120 days. The communication with staff has improved, and he appreciates that the TDC is receiving a broad scope of options to consider on each issue. He thanked Council Member Korte and Council Member Elect Littlefield for attending the meeting. Commissioner Bailey commended Chairperson Scholefield for his leadership.

10. Adjournment

The meeting adjourned at 12:15 p.m.

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